

**NOTES TO  
FINANCIAL STATEMENTS**

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**1. Summary of Significant Accounting Policies**

**Reporting entity**

The City of Manchester, New Hampshire, (the City) was incorporated in June of 1846 and operates as a municipal corporation governed by an elected mayor and a fourteen (14) member aldermanic board. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and as a result, the component units discussed below are included in the City's reporting entities because of their operational significance and financial relationship with the City.

**Discretely presented component units**

Manchester Development Corporation ("MDC") - The MDC was created by the Board of Mayor and Aldermen ("BMA") as a public corporation for the purpose of developing economic opportunities for the City. The MDC Board of Directors is comprised of twelve (12) members, all of whom shall be nominated by the Mayor and confirmed by the Board of Aldermen of the City. Separate financial statements are not available. MDC is presented as a governmental fund type.

Manchester School District ("District" or "MSD") - The MSD is responsible for elementary and secondary education within the government's jurisdiction. The fourteen (14) members of the school board are elected by the voters. However, the District is fiscally dependent upon the government as the government's BMA approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. Other independent auditors audited the MSD, a June 30 year-end, and their report, dated November 21, 2002, has been issued under separate cover. The District is presented as a governmental fund type.

Manchester Transit Authority ("MTA") - The MTA was created by the BMA to provide a public transportation system for the citizens of the City. A five-member board appointed by the BMA oversees the MTA. Other independent auditors audited the MTA, a June 30 year-end, and their report, dated August 20, 2002, has been issued under separate cover. The MTA is presented as a proprietary fund type.

Complete financial statements of the individual component units for MSD and MTA may be obtained directly from their administrative offices.

Manchester Development Corporation  
One City Hall Plaza  
Manchester NH 03104

Manchester School District  
196 Bridge Street  
Manchester NH 03104

Manchester Transit Authority  
110 Elm Street  
Manchester NH 03101-2799

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**1. Summary of Significant Accounting Policies (continued)**

**Blended Component Unit**

City of Manchester Employees' Contributory Retirement System (the "New System") - The New System was created by the BMA for the purpose of administering the assets of the employees' contributory retirement system. The New System's Board of Trustees consists of seven members, as follows: the City Finance Officer, the Mayor, one person appointed by the Board of Aldermen, two citizens of the City - one appointed by the Mayor, one elected by the New System members and two New System members also elected by the New System members. Other independent auditors audited the New System, a December 31 year end, for the year ended December 31, 2000, and their report, dated April 9, 2001, has been issued under separate cover. The New System is presented as a pension trust fund.

Complete financial statements of the individual component units may be obtained directly from its administrative office.

City of Manchester Employees'  
Contributory Retirement System  
1838 Elm Street  
Manchester NH 03104

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain locally separate component units which the city is financially accountable for.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred,

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**1. Summary of Significant Accounting Policies (continued)**

regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes when levied for, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements) the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for financial resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements and/or equipment. Most of the capital outlays are financed by the issuance of general obligation bonds. Other sources include capital grants and low-interest state loans.

The government reports the following major proprietary funds:

The *Water Works Fund* accounts for the operations of the City's water service for residential, commercial and industrial entities for the City and six surrounding communities. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

The *Environmental Protection Division (EPD)* accounts for the operations of the City's wastewater treatment plant as well as all services related to the treatment of sewage for the City and three surrounding communities. Its operations are financed from special assessments and direct charges to the users of the service.

*Aviation Fund* is used to account for the operations of the City's airport which is operated by the Department of Aviation.

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**1. Summary of Significant Accounting Policies (continued)**

Additionally, the government reports the following fund types:

*Permanent Trust Funds* are used to account for assets, contributions and income earned on investments used to maintain the City's cemeteries, endowment funds, and libraries.

The *Pension Trust Funds* account for the activities of the City's two defined benefit pension plans, which accumulate resources for pension benefit payments to qualified employees.

The *Agency Funds* account for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise funds include the cost of operations and maintenance, provision for doubtful accounts, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**1. Summary of Significant Accounting Policies (continued)**

Cash equivalents

New Hampshire Revised Statutes Annotated (“RSA”) Chapter 48:16 (“RSA 48:16”), as amended, establishes the policy the City must adhere to when investing City funds. With approval of the BMA, the Finance Officer, acting as Treasurer, may invest in obligations of the United States government, in savings bank deposits of banks incorporated under the laws of the State of New Hampshire (“the State”), in participation units of the New Hampshire Public Deposit Investment Pool (“NH-PDIP”), in certificates of deposit of banks incorporated under the laws of the State, or in national banks located in New Hampshire or the Commonwealth of Massachusetts. RSA 48:16 does not allow the City to enter into reverse repurchase agreements.

The City’s cash and cash equivalents represent short-term investments with an initial maturity of three months or less.

Investments

Investments are stated at fair value using quoted market prices.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life equal to or in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment that has been purchased by governmental funds is recorded as expenditures in the purchasing funds at the time of purchase or construction. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net interest cost capitalized in the Environmental Protection Division Fund and Aviation Fund amounted to approximately \$15,000 and \$1,111,000, respectively, for the year ended June 30, 2002.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

| Assets             | Years |
|--------------------|-------|
| Buildings          | 15-60 |
| Improvements       | 5-30  |
| Equipment          | 5-15  |
| Vehicles           | 3-10  |
| Interceptors (EPD) | 50    |
| Infrastructure     | 20-50 |

**City of Manchester, New Hampshire**  
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**1. Summary of Significant Accounting Policies (continued)**

Compensated absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

The liability for compensated absences, which represents the City's commitment to fund such costs from future operations, is reported in the governmental funds' accrued liabilities. The liability reported as compensated absences includes vested and accumulated vacation leave and sick leave benefits that are not expected to be liquidated with current fiscal year available financial resources. Vested or accumulated vacation and sick leave of the enterprise funds are recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick-pay benefits. However, a liability is recognized for that portion of accumulated sick-leave benefits that it is estimated will be taken as terminal leave prior to retirement.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension accounting

**Pension Trust Funds:**

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Governmental Funds:**

The net pension obligation (asset), the cumulative difference between annual pension cost and the City's contributions to the plans since 1986, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27 and is recognized in the government wide financial statements. Expenditures are recognized when they are paid or are expected to be paid with current available resources.

**Funding Policy:**

The City makes annual contributions based upon annual actuarial determinations.

**City of Manchester, New Hampshire**  
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**1. Summary of Significant Accounting Policies (continued)**

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute either expenditures or liabilities.

Inventory

Inventory is stated as lower of cost or market on a first-in, first-out basis.

Land held for resale

The City holds property for resale. The carrying value of this property includes the purchased price plus the cost of any improvements. When the property is sold the cost of the portion sold is charged to expenditure.

Fund Equity and Net Assets

In the Governmental-Wide Financial Statements, net assets are classified in the following categories:

***Invested in Capital Assets, Net of Related Debt*** – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

***Restricted Net Assets*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted Net Assets*** – This category represents the net assets of the City, which are not restricted for any project or other purpose.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The two categories, and their general meanings, are as follows:

***Reserved fund balance*** - indicates that portion of fund equity which has been legally segregated for specific purposes.

***Undesignated and unreserved fund balance*** - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.



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**2. Reconciliation of Government-Wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities are reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$705,550 difference consisting of current assets are as follows:

|  |                             |
|--|-----------------------------|
| Accounts receivable:   |                             |
| Trade  | \$ 556,056                  |
| Prepaid expenses:  |                             |
| Underwriters’ discount and Cost of Issuance                        | 149,494                     |
| Net adjustment to increase fund balance – total governmental funds | <u>                    </u> |
| to arrive at net assets – governmental activities                  | <u>\$ 705,550</u>           |

The details of the \$173,479,665 difference consisting of long-term debt are as follows:

|  |                             |
|--|-----------------------------|
| Bonds payable:   | \$ 135,787,560              |
| Less: Deferred loss on refunding (to be amortized as interest expense)             | (787,488)                   |
| Less: Deferred charge for refunding premium (to be Amortized over life of debt)    | (9,019)                     |
| Add: Deferred discount on pension obligation (to be amortized as interest expense) | 579,500                     |
| Capital appreciation bonds   | 6,909,802                   |
| Compensated absences   | 5,418,492                   |
| Insurance claims   | 4,071,081                   |
| Landfill closure and post-closure care   | 21,509,737                  |
| Net adjustment to reduce fund balance – total governmental funds                   | <u>                    </u> |
| to arrive at net assets – governmental activities                                  | <u>\$ 173,479,665</u>       |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
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**2. Reconciliation of Government-Wide and Fund Financial Statements (continued)**

The details of the \$745,258 difference consisting of current accruals are as follows:

|   |                   |
|---|-------------------|
| Accrued interest  | \$ (3,105,341)    |
| Due to School District  | 1,768,678         |
| Deferred revenue  | <u>2,081,921</u>  |
| Net adjustment to increase fund balance – total governmental funds<br>to arrive at net assets – governmental activities | <u>\$ 745,258</u> |

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$68,623,026 difference are as follows:

|  |                      |
|--|----------------------|
| Capital outlay   | \$ 10,115,460        |
| Civic Center contribution  | 65,700,698           |
| Depreciation expense   | <u>(7,193,132)</u>   |
| Net adjustment to increase net changes in fund balances -<br>total governmental funds to arrive at changes in net assets<br>of governmental activities | <u>\$ 68,623,026</u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
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**2. Reconciliation of Government-Wide and Fund Financial Statements (continued)**

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(23,809,252) difference are as follows:

|  |                        |
|--|------------------------|
| Long-term liabilities issued or incurred:  |                        |
| Issuance of general obligation bonds   | \$ (37,205,022)        |
| Less series 2001 B discounts   | 579,500                |
| Less series 2001 AC discounts  | 158,662                |
| Less series 2001 B discounts   | 192,216                |
| Issuance of pension obligation bond  | (18,960,260)           |
| Principal repayments:  |                        |
| General obligation debt-City portion   | 11,030,422             |
| General obligation debt-MSD portion reimbursed   | 6,447,742              |
| Payment to escrow agent for refunding  | <u>13,947,488</u>      |
| Net adjustment to decrease net changes in fund balances -<br>total governmental funds to arrive at changes in net assets of<br>governmental activities | <u>\$ (23,809,252)</u> |

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$15,439,912 difference are as follows:

|  |                      |
|--|----------------------|
| Prepaid Pension Asset  | \$ 18,511,248        |
| Long-term liabilities incurred:  |                      |
| Risk reserve   | 606,483              |
| Landfill reserve   | (1,577,833)          |
| Capital appreciation bonds reserve   | (921,685)            |
| Compensated absences   | (160,836)            |
| Accrued interest   | <u>(1,017,465)</u>   |
| Net adjustment to decrease net changes in fund balances -<br>total governmental funds to arrive at changes in net assets of<br>governmental activities | <u>\$ 15,439,912</u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**3. Stewardship, Compliance and Accountability**

**A. Budgets and Budgetary Accounting**

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions and certain enterprise functions (the Water Works enterprise fund operates on a nonappropriated budgetary basis). The legal level of budgetary control is the department level. The special revenue and capital project funds are appropriated through a five-year capital improvement plan.

All portions of the annual City budget and the MSD budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the BMA on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed no later than the second Tuesday in June. The Mayor has line item veto authority.

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the year.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

The legal level of control for budgetary is established by object categories within the departmental budgets. Departmental budget transfers from one object category to another must be approved by the Finance Officer prior to approval of the BMA. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

**City of Manchester, New Hampshire**  
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**3. Stewardship, Compliance and Accountability (continued)**

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the "actual" results to provide a comparison with the budgets.

The major differences between the budgetary basis and the GAAP basis are:

- (a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.

**B. Budget/GAAP Reconciliation**

Reconciliation of the reported revenues and expenditures of the general fund between the budgetary basis and the GAAP basis are presented below:

|   | <u>Revenues</u>             | <u>Expenditures</u>         |
|---|-----------------------------|-----------------------------|
| Statement of revenues and expenditures -                |                             |                             |
| budgetary basis   | \$ 99,475,614               | \$ 96,878,921               |
| Pension benefit payments                                |                             | 18,960,260                  |
| Current year encumbrances                               |                             | (540,119)                   |
| State retirement contributions                          | 646,213                     | 646,213                     |
| Tax revenues of 2001 recognized in 2002                 | 1,517,671                   |                             |
| Tax revenues of 2002 deferred until 2003                | (896,948)                   |                             |
| Prior year encumbrances adjustment                      |                             | (150,751)                   |
| Expenditures of prior year encumbrances                 |                             | 1,096,188                   |
|   | <u>                    </u> | <u>                    </u> |
| Statement of revenues, expenditures and changes in fund |                             |                             |
| balances (in conformity with GAAP)                      | <u>\$ 100,742,550</u>       | <u>\$ 116,890,712</u>       |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
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**4. Cash, Cash Equivalents and Investments**

**Primary Government**

Cash and cash equivalents consist of the following types of accounts at June 30, 2002.

| <b>Cash &amp; Cash Equivalents</b>       | <b>Primary Government</b> | <b>Component Units</b> |
|--|---------------------------|------------------------|
| Restricted Deposits                      | \$ 9,262,540              | \$ 33,924              |
| Deposits                                 | 6,026,263                 | 852,194                |
| (1) Repurchase Agreements                | 81,929,407                | 174,443                |
| (1) Money Market / Index Funds           | 97,771,866                |                        |
| (1) NH - PDIP Unclassified               | 26,542,179                |                        |
| (1) MDC – Vanguard/BNH Portfolio Trust   |                           | 750,862                |
|  | <u>\$ 221,532,255</u>     | <u>\$ 1,811,423</u>    |
| (1) See categorization under investments |                           |                        |
| <b>Investments</b>                       | <u>\$ 30,596,305</u>      | <u>0</u>               |

The City pools substantially all cash, except for separate cash accounts, which are maintained in accordance with legal restrictions.

Written contracts relative to third party holders of collateral or establishing each party's rights with regard to repurchase agreements are entered into by the City. Banks through which repurchase notes are written maintain their collateral in an investment book entry account with the Federal Reserve. For certain contracts collateral is separate from the bank's assets, while for other contracts it is not separate. Repurchase agreements are entered into only with financial institutions; no brokers or dealers are involved in these transactions. The following tables present collateral information for the City's deposits for all funds.

- Category A: Fully insured or collateralized with securities held by the City or its agent in the City's name.
- Category B: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category C: Uncollateralized

|                     | <b>Category</b>      |             |                  | <b>Total Bank Balance</b> | <b>Carrying Amount</b> |
|---------------------|----------------------|-------------|------------------|---------------------------|------------------------|
|                     | <b>A</b>             | <b>B</b>    | <b>C</b>         |                           |                        |
| Pooled Deposits     |                      |             |                  |                           |                        |
| Demand deposits     | \$ 11,688,250        |             | \$ 9,945         | \$ 11,698,195             | \$ 6,878,457           |
| Restricted Deposits | 9,262,540            |             | 33,924           | 9,296,464                 | 9,296,464              |
| Total Deposits      | <u>\$ 20,950,790</u> | <u>\$ -</u> | <u>\$ 43,869</u> | <u>\$ 20,994,659</u>      | <u>\$ 16,174,921</u>   |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**4. Cash, Cash Equivalents and Investments (continued)**

In accordance with GASB Statement 3, investments are classified as to risk by the three categories described below:

- Category 1: Insured or registered in the City's name, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the City's name.

|                           | Category |              |              | Uncategorized (1) | Carry and Fair Value |
|---------------------------|----------|--------------|--------------|-------------------|----------------------|
|                           | 1        | 2            | 3            |                   |                      |
| Investments               |          |              |              |                   |                      |
| US Treasury Notes         |          | \$ 4,989,251 |              |                   | \$ 4,989,251         |
| US Government Securities  |          |              | \$ 744,474   |                   | 744,474              |
| Corporate Bonds           |          |              | 3,956,787    |                   | 3,956,787            |
| Common Stocks             |          |              | 1,221,812    |                   | 1,221,812            |
| Index Funds               |          |              |              | \$ 13,726,218     | 13,726,218           |
| Mortgage-Back             |          |              |              | 2,062,992         | 2,062,992            |
| Sub-Total                 | -        | 4,989,251    | 5,923,073    | 15,789,210        | 26,701,534           |
| Restricted Investments    |          |              |              |                   |                      |
| US Treasury Notes         |          | 3,894,771    |              |                   | 3,894,771            |
| Total Investments         | \$ -     | \$ 8,884,022 | \$ 5,923,073 | \$ 15,789,210     | \$ 30,596,305        |
| Cash Equivalents          |          |              |              |                   |                      |
| Repurchase Agreements     |          | \$81,929,407 |              |                   | \$ 81,929,407        |
| Non-Categorized Items (2) |          |              |              |                   |                      |
| Index Funds               |          |              |              |                   | 97,771,866           |
| NH - PDIP Unclassified    |          |              |              |                   | 26,542,179           |
| Total Cash Equivalents    | \$ -     | \$81,929,407 | \$ -         | \$ -              | \$206,243,452        |
| Grand Total               | \$ -     | \$90,813,429 | \$ 5,923,073 | \$ 15,789,210     | \$236,839,757        |

- (1) Funds are not subject to investment classification because specific securities related to the City cannot be identified
- (2) The amounts are not subject to risk categorization since the City does not own identifiable securities.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**4. Cash, Cash Equivalents and Investments (continued)**

At year end, the CRS Pension Trust's cash balance was as follows:

Cash and cash equivalents consist of the following types of accounts at December 31, 2001.

| <b>Cash &amp; Cash Equivalents</b>       | <b>CRS Pension<br/>Trust</b> |
|--|------------------------------|
| Deposits                                 | <u>\$ 292,923</u>            |
| (1) See categorization under investments |                              |
| <b>Investments</b>                       | <u>\$ 85,669,869</u>         |

At year end, the CRS Pension Trust's investment balances were as follows:

|   | <u>Uncategorized (1)</u> | <u>Carry and Fair<br/>Value</u> |
|---|--------------------------|---------------------------------|
| Investments                                 |                          |                                 |
| Equity funds                                | \$ 70,965,824            | \$ 70,965,824                   |
| Fixed income                                | 11,529,276               | 11,529,276                      |
| Emerging market funds                       | 1,767,466                | 1,767,466                       |
| Charles B. Manning, Inc.<br>(related party) | 613,615                  | 613,615                         |
| Cash and equivalents                        | <u>793,688</u>           | <u>793,688</u>                  |
| Total Investments                           | <u>\$ 85,669,869</u>     | <u>\$ 85,669,869</u>            |

- (1) Funds are not subject to investment classification because specific securities related to the City cannot be identified.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**5. Taxes and Abatements**

The principle tax of the City is the tax on real property. The State has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality's annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State, based on reports filed with the State. A single tax is levied for general, county and school purposes. The "assessment year" for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects its property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of estimated allowance for abatements. Property tax revenues have been recorded using the modified accrual basis of accounting as described in Note 1.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to May 1 of the following assessment year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest and costs will be accepted and the lien released.

Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. During the redemption period, 18 percent interest per annum is charged. Beyond the two-year period of redemption the City has the right to foreclose on properties for which taxes have not been paid. Properties are deeded to the City unless either the lien has been sold by the City, or the City has notified the tax collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector's deeds are free and clear of all encumbrances.

In December 1997, the New Hampshire Supreme Court declared that the property tax to fund education is a State tax, and therefore must be administered in a manner that is equal in valuation and uniform in rate throughout the State.

Chapter 17 of the Laws of 1999 became effective in 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts.

The primary means of State funding for the Education Trust fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. The law established a uniform tax rate of \$6.60 per thousand of total equalized value (not including utility property or local exemptions). The new state aid property tax is assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The MSD is a recipient district.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**6. Receivables**

**Primary Government**

|   | General              | CIP             | MWW                 | EPD                 | Aviation            | Other               | Total               |
|---|----------------------|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Due from Warrants                                 | \$ 14,100,087        |                 |                     |                     |                     |                     | \$14,100,087        |
| Due from State of NH &<br>other local governments | 2,432,784            |                 |                     | \$ 8,123,265        | \$ 494,074          |                     | 11,050,123          |
| Prior year tax liens                              | 759,972              |                 |                     |                     |                     |                     | 759,972             |
| Tax titles  | 1,042,066            |                 |                     |                     |                     |                     | 1,042,066           |
| Due from<br>federal government                    | 13,140               |                 |                     |                     | 8,893,707           | \$ 628,478          | 9,535,325           |
| Accounts receivable-trade                         | 1,195,856            | \$13,147        | \$ 1,733,063        | 3,022,334           | 2,129,054           | 262,156             | 8,355,610           |
| Notes receivable                                  |                      |                 |                     |                     |                     | 4,399,864           | 4,399,864           |
| Other   | 546,631              |                 | 239,957             | 507,841             |                     | 216,215             | 1,510,644           |
| Total gross receivables                           | <u>20,090,536</u>    | <u>13,147</u>   | <u>1,973,020</u>    | <u>11,653,440</u>   | <u>11,516,835</u>   | <u>5,506,713</u>    | <u>50,753,691</u>   |
| Allowance for<br>collection losses                | <u>(1,476,127)</u>   |                 |                     |                     |                     |                     | <u>(1,476,127)</u>  |
| Total net receivables                             | <u>\$ 18,614,409</u> | <u>\$13,147</u> | <u>\$ 1,973,020</u> | <u>\$11,653,440</u> | <u>\$11,516,835</u> | <u>\$ 5,506,713</u> | <u>\$49,277,564</u> |

The receivables from the State of New Hampshire and other governmental entities represent their contractual commitment to reimburse the City for the repayment of debt incurred to build its wastewater treatment and related facilities.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**7. Interfund Receivables, Payables and Transfers**

Due from/to other funds consist of the following at June 30, 2002:

| <u>Receivable Fund</u> | <u>Payable Fund</u>              | <u>Amount</u>              |
|------------------------|----------------------------------|----------------------------|
| General Fund           | Agency                           | \$ 1,071,041               |
|                        | Special Revenue:                 |                            |
|                        | CDBG                             | 6,236                      |
|                        | Other grants                     |                            |
|                        | HUD Section 108                  | 1,700,198                  |
|                        | Cemetery Trust                   | 304,159                    |
|                        | Expendable Trust                 | 570                        |
|                        | Pension Trust-Old Pension System | 7,275                      |
|                        | Enterprise:                      |                            |
|                        | Recreation                       | 228,982                    |
|                        | Aggregation advances             | 1,720,166                  |
|                        |                                  | <u>5,038,627</u>           |
| Non-Major :            |                                  |                            |
| Other grants           | Expendable Trust                 | 70,851                     |
| Water Works            | Expendable Trust                 | <u>385,363</u>             |
|                        | Total - All Funds                | <u><u>\$ 5,494,841</u></u> |

The balances of \$228,982 and \$1,720,166 due from the two enterprises to the general fund are the result of short-term advances. The balance of \$385,363 is also a result of a short-term advance. All remaining balances resulted from the time lag between the dates payments occur between funds for various activities.

Interfund transfers during the year ended June 30, 2002 were as follows:

| <u>General<br/>Fund</u> | <u>Special<br/>Revenue</u> | <u>Old System<br/>Trust</u> | <u>Water<br/>Works</u> | <u>Transfers<br/>Totals</u> |
|-------------------------|----------------------------|-----------------------------|------------------------|-----------------------------|
| \$ (1,620,742)          | \$ 1,620,742               |                             |                        | -                           |
| 769,277                 | (769,277)                  |                             |                        | -                           |
|                         |                            | \$ 1,849,740                | \$ (1,849,740)         | -                           |
| <u>\$ (851,465)</u>     | <u>\$ 851,465</u>          | <u>\$ 1,849,740</u>         | <u>\$ (1,849,740)</u>  | <u>\$ -</u>                 |

Transfers are used to account for unrestricted revenues collected mainly in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations. The transfer from the Water Works fund to the Old System Trust was to fund the pension plan.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**8. Capital Assets**

**Governmental activities**

Changes in the governmental capital assets for the year ended June 30, 2002, were as follows:

|  | Balance<br>30-Jun-01<br>as restated | Additions            | Retirements           | Transfers          | Balance<br>30-Jun-02  |
|--|-------------------------------------|----------------------|-----------------------|--------------------|-----------------------|
| Capital assets,<br>not being depreciated       |                                     |                      |                       |                    |                       |
| Land   | \$ 15,042,481                       | \$ 3,323,150         |                       |                    | \$ 18,365,631         |
| Construction-in-Progress                       | 21,218,342                          | 2,241,593            | \$ (2,445,764)        | \$ (3,469,999)     | 17,544,172            |
| Total capital assets,<br>not being depreciated | <u>36,260,823</u>                   | <u>5,564,743</u>     | <u>(2,445,764)</u>    | <u>(3,469,999)</u> | <u>35,909,803</u>     |
| Capital assets,<br>being depreciated           |                                     |                      |                       |                    |                       |
| Buildings                                      | 102,427,841                         | 64,911,753           | (23,735)              | 1,399,633          | 168,715,492           |
| Improvements<br>other than buildings           | 8,167,088                           | 4,252,526            | (499,714)             | 2,070,366          | 13,990,266            |
| Equipment                                      | 4,987,198                           | 1,440,816            | (1,521,350)           |                    | 4,906,664             |
| Vehicles                                       | 14,555,085                          | 1,338,822            | (854,971)             |                    | 15,038,936            |
| Infrastructure                                 | 32,905,178                          | 836,722              | -                     | -                  | 33,741,900            |
| Total capital assets,<br>being depreciated     | <u>163,042,390</u>                  | <u>72,780,639</u>    | <u>(2,899,770)</u>    | <u>3,469,999</u>   | <u>236,393,258</u>    |
| Less accumulated depreciation                  |                                     |                      |                       |                    |                       |
| Buildings                                      | 58,053,200                          | 4,147,325            | (11,900)              | -                  | 62,188,625            |
| Improvements<br>other than buildings           | 5,576,766                           | 574,558              | (472,879)             | -                  | 5,678,445             |
| Equipment                                      | 3,995,303                           | 312,525              | (1,381,251)           |                    | 2,926,577             |
| Vehicles                                       | 11,695,225                          | 869,674              | (854,973)             |                    | 11,709,926            |
| Infrastructure                                 | 14,873,559                          | 1,289,050            | -                     | 6,820              | 16,169,429            |
| Total accumulated depreciation                 | <u>94,194,053</u>                   | <u>7,193,132</u>     | <u>(2,721,003)</u>    | <u>6,820</u>       | <u>98,673,002</u>     |
| Governmental Activities<br>Capital Assets, Net | <u>\$ 105,109,160</u>               | <u>\$ 71,152,250</u> | <u>\$ (2,624,531)</u> | <u>\$ (6,820)</u>  | <u>\$ 173,630,059</u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**8. Capital Assets (continued)**

**Business-type Activities**

|   | Balance<br>30-Jun-01         | Additions                   | Retirements                  | Transfers           | Balance<br>30-Jun-02         |
|---|------------------------------|-----------------------------|------------------------------|---------------------|------------------------------|
| Capital assets,<br>not being depreciated                  |                              |                             |                              |                     |                              |
| Land  | \$ 10,302,543                | \$ 1,178,119                | \$ (1,103,239)               |                     | \$ 10,377,423                |
| Construction-in-Progress                                  | 183,907,167                  | 46,692,229                  | (49,756)                     | \$ (63,495,951)     | 167,053,689                  |
| Total capital assets,<br>not being depreciated            | <u>194,209,710</u>           | <u>47,870,348</u>           | <u>(1,152,995)</u>           | <u>(63,495,951)</u> | <u>177,431,112</u>           |
| Capital assets,<br>being depreciated                      |                              |                             |                              |                     |                              |
| Buildings   | 204,354,138                  | 2,043,654                   | (487,100)                    | 687,223             | 206,597,915                  |
| Improvements<br>other than buildings                      | 51,224,344                   | 9,650,150                   | (45,469)                     | 75,104,935          | 135,933,960                  |
| Equipment   | <u>94,264,986</u>            | <u>700,627</u>              | <u>(369,730)</u>             | <u>(12,296,207)</u> | <u>82,299,676</u>            |
| Total capital assets,<br>being depreciated                | <u>349,843,468</u>           | <u>12,394,431</u>           | <u>(902,299)</u>             | <u>63,495,951</u>   | <u>424,831,551</u>           |
| Less accumulated depreciation<br>accumulated depreciation | <u>125,454,182</u>           | <u>11,815,366</u>           | <u>242,974</u>               | <u>-</u>            | <u>137,512,522</u>           |
| Business-type<br>Capital Assets, Net                      | <u><u>\$ 418,598,996</u></u> | <u><u>\$ 48,449,413</u></u> | <u><u>\$ (2,298,268)</u></u> | <u><u>\$ -</u></u>  | <u><u>\$ 464,750,141</u></u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**8. Capital Assets (continued)**

**Discretely Reported Component Units**

Property and equipment activity in the School District at June 30, 2002, consisted of the following:

|   | Restated balance<br>July 1, 2001 | Increases                  | Balance<br>30-Jun-02       |
|---|----------------------------------|----------------------------|----------------------------|
| Capital assets, being depreciated           |                                  |                            |                            |
| Portable classrooms                         | \$ 843,608                       |                            | \$ 843,608                 |
| Vehicles                                    | -                                |                            | -                          |
| Instruments                                 | 63,000                           |                            | 63,000                     |
| Other machinery & equipment                 | 6,900,748                        | \$ 56,171                  | 6,956,919                  |
| Total capital assets,<br>being depreciated  | <u>7,807,356</u>                 | <u>56,171</u>              | <u>7,863,527</u>           |
| Less accumulated depreciation               |                                  |                            |                            |
| Portable classrooms                         | 61,484                           | 28,122                     | 89,606                     |
| Instruments                                 | 4,000                            | 2,943                      | 6,943                      |
| Other machinery & equipment                 | <u>2,843,195</u>                 | <u>421,340</u>             | <u>3,264,535</u>           |
| Less total accumulated depreciation         | <u>2,908,679</u>                 | <u>452,405</u>             | <u>3,361,084</u>           |
| Total Capital Assets being depreciated, Net | <u><u>\$ 4,898,677</u></u>       | <u><u>\$ (396,234)</u></u> | <u><u>\$ 4,502,443</u></u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**8. Capital Assets (continued)**

Property and equipment activity in the MTA at June 30, 2002, consisted of the following:

|  | Balance<br>30-Jun-01 | Additions         | Retirements  | Transfers   | Balance<br>30-Jun-02 |
|--|----------------------|-------------------|--------------|-------------|----------------------|
| Capital assets, not being depreciated          |                      |                   |              |             |                      |
| Land   | \$ 129,109           |                   |              |             | \$ 129,109           |
| Total capital assets,<br>not being depreciated | 129,109              | -                 | -            | -           | 129,109              |
| Capital assets, being depreciated              |                      |                   |              |             |                      |
| Buildings                                      | 1,807,598            |                   |              |             | 1,807,598            |
| Buses  | 5,584,482            | \$ 766,597        | \$ (565,246) |             | 5,785,833            |
| Equipment                                      | 1,472,192            | 11,816            | (6,796)      |             | 1,477,212            |
| Total capital assets<br>being depreciated      | 8,864,272            | 778,413           | - (572,042)  | -           | 9,070,643            |
| Less accumulated depreciation                  | 6,559,925            | 608,358           | - (572,042)  | -           | 6,596,241            |
| Total Capital Assets<br>being depreciated, Net | <u>\$ 2,433,456</u>  | <u>\$ 170,055</u> | <u>\$ -</u>  | <u>\$ -</u> | <u>\$ 2,603,511</u>  |

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

|  |                     |
|--|---------------------|
| General  | \$ 1,417,084        |
| Public safety  | 661,113             |
| Highways and streets                                 | 2,609,303           |
| Health and welfare                                   | 96,894              |
| Education and library                                | 1,789,937           |
| Parks  | 618,801             |
| Total depreciation expense – governmental activities | <u>\$ 7,193,132</u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**9. Long-Term Debt**

**Primary Government**

The debt service requirements of the City's outstanding general obligation bonds, revenue bonds and notes payable at June 30, 2002 are as follows:

Governmental long-term debt:

| Fiscal year            | Capital<br>Appreciation | Principal             | Interest             | Total                 |
|------------------------|-------------------------|-----------------------|----------------------|-----------------------|
| 2003                   | \$ 719,629              | \$ 16,875,865         | \$ 8,446,538         | \$ 26,042,032         |
| 2004                   | 414,226                 | 15,409,450            | 8,007,144            | 23,830,820            |
| 2005                   |                         | 14,489,168            | 7,702,326            | 22,191,494            |
| 2006                   |                         | 10,908,037            | 4,289,885            | 15,197,922            |
| 2007                   |                         | 7,907,186             | 3,875,083            | 11,782,269            |
| Thereafter to Maturity |                         | 70,197,854            | 25,095,801           | 95,293,655            |
| Total                  | <u>\$ 1,133,855</u>     | <u>\$ 135,787,560</u> | <u>\$ 57,416,777</u> | <u>\$ 194,338,192</u> |

Business-type Activities:

| Fiscal year                    | Principal             | Interest              | Total                 |
|--------------------------------|-----------------------|-----------------------|-----------------------|
| 2003                           | \$ 11,336,850         | \$ 11,974,514         | \$ 23,311,364         |
| 2004                           | 11,819,287            | 11,993,481            | 23,812,768            |
| 2005                           | 12,206,014            | 13,148,206            | 25,354,220            |
| 2006                           | 11,888,890            | 12,728,134            | 24,617,024            |
| 2007                           | 10,909,656            | 12,293,890            | 23,203,546            |
| Thereafter to maturity         | 273,666,311           | 149,184,102           | 422,850,413           |
| Debt Service Requirement       | 331,827,008           | 211,322,327           | 543,149,335           |
| Less Bond Discount             | (3,735,792)           |                       | (3,735,792)           |
| Less Deferred Loss             | (1,835,388)           |                       | (1,835,388)           |
| Total Business-type Activities | <u>\$ 326,255,828</u> | <u>\$ 211,322,327</u> | <u>\$ 537,578,155</u> |

Interest rates for the City's outstanding GO bonds range from 2.05% to 8.875%. At June 30, 2002 the City's legal debt limit was \$580,322,643. Authorized, but unissued, bonds as of June 30, 2002 amounted to \$59,082,099. Unissued bonds at June 30, 2002 include authorization for compliance with various improvements, infrastructure improvements, and economic development projects. The business-type funds, EPD and Water Works comprise a large part of this total outstanding dollar amount with \$25,812,099 and \$4,500,000, respectively. Of those amounts, \$30,312,099 is expected to be financed through the State of New Hampshire DES-SRF program. Additionally, the most significant ongoing GO project is the Sanitary Landfill Closure in the amount of \$13,850,000, which is expected to be financed through the State DES-SRF program. The full faith, credit and revenue-raising powers of the City have been pledged to secure these bonds.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**9. Long-Term Debt (continued)**

For June 30, 2002 an amount of \$6,909,802 was recorded in the Government-Wide Financial Statement for the accretion of interest on the capital appreciation bonds which is also included in the governmental long-term debt service in fiscal years 2003 through 2005.

Long-term liability activity for the year ended June 30, 2002 was as follows:

|   | Beginning<br>Balance  | Increases            | Decreases            | Balance<br>30-Jun-02  | Due within<br>One year |
|---|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| Governmental activities:  |                       |                      |                      |                       |                        |
| Bonds payable - City  | \$ 68,034,279         | \$ 43,076,383        | \$ 22,990,422        | \$ 88,120,240         | \$ 10,890,802          |
| Bonds payable - MSD   | 42,836,164            | 12,478,898           | 7,647,742            | 47,667,320            | 5,985,063              |
|   | <u>110,870,443</u>    | <u>55,555,281</u>    | <u>30,638,164</u>    | <u>135,787,560</u>    | <u>16,875,865</u>      |
| Compensated absences  | 5,257,656             | 160,836              |                      | 5,418,492             | 2,095,614              |
| Insurance claims  | 4,677,564             |                      | 606,483              | 4,071,081             | 478,845                |
| Capital appreciation bonds                                      | 5,988,117             | 921,685              |                      | 6,909,802             | 2,493,036              |
| Net Pension Obligations   | 364,220               |                      | 364,220              | -                     | -                      |
| Landfill closure and<br>post-closure care                       | 19,931,904            | 1,577,833            |                      | 21,509,737            | -                      |
|   | <u>\$ 147,089,904</u> | <u>\$ 58,215,635</u> | <u>\$ 31,608,867</u> | <u>\$ 173,696,672</u> | <u>\$ 21,943,360</u>   |
| Business-type activities  |                       |                      |                      |                       |                        |
| General Obligation Debt   | \$ 46,575,117         | \$ 7,155,100         | \$ 2,803,209         | \$ 50,927,008         | \$ 6,871,850           |
| Revenue Bonds, net of<br>unamortized Original<br>Issue Discount | 210,385,009           | 69,665,000           | 4,721,189            | 275,328,820           | 4,465,000              |
|   | <u>\$ 256,960,126</u> | <u>\$ 76,820,100</u> | <u>\$ 7,524,398</u>  | <u>\$ 326,255,828</u> | <u>\$ 11,336,850</u>   |

The EPD Enterprise Fund has eight loan agreements with original principal balances amounting to \$33,947,147 with the State of New Hampshire, State Water Pollution Control Revolving Fund (SRF) program for the purpose of financing certain projects in connection with the expansion of the wastewater treatment facility and water pollution abatement project.

Additionally, several projects are currently utilizing the services of the SRF. These projects are in various stages of the construction or completion phase of the project. Three of the DES eligible projects are classified as EPD Enterprise, while the single exception, the Sanitary Landfill Closure carries a general fund genre. Total indebtedness unamortized as of June 30, 2002 is \$11,455,432, comprised of \$3,146,895 for EPD and CSO projects, and \$8,308,537 for the Sanitary Landfill Closure.

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account asset and liability for the defeased bonds are not included in the City's financial statements. On June 30, 2002 \$15,410,000 of bonds outstanding are considered defeased.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**9. Long-Term Debt (continued)**

The Department of Aviation (the “DA”) Enterprise Fund has entered into a twenty year interest rate swap agreement for \$38,340,000 of its variable rate demand general airport revenue bonds. Based on the swap agreement, the DA owes interest calculated at a fixed rate of 4.38% to the counterparty to the swap. In return, the counterparty owes the DA interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$38,340,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The DA continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the DA effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds are based on the fixed rate.

At June 30, 2002, the swap agreement resulted in an unfavorable fair value of approximately \$1,763,000, based on dealer quoted prices, and accordingly, the fair value of the swap was recorded in accounts payable and additional interest expense in the related accompanying financial statements.

**Manchester Housing and Redevelopment Authority**

In March 2000, the Manchester Housing and Redevelopment Authority, New Hampshire the (“MHRA”) issued \$49,772,909 in revenue bonds (the “Bonds”) to finance, in part, the construction of the Manchester Civic Center (now the Verizon Wireless Arena) (the “Arena”). The MHRA is a public body, corporate and politic, established pursuant to Chapter 203 of the New Hampshire Revised Statutes. The MHRA is not a component unit of the City within the meaning of GASB No. 14.

The Bonds issued by the MHRA to finance the construction of the Arena are secured, to a degree, by revenues to be-paid by the City pursuant to a Financing Agreement between the City and the MHRA (the “Financing Agreement”). At the time of the issuance of the Bonds, MHRA assigned all of its rights under the Financing Agreement to a corporate trustee, to be held, in trust, for the benefit of the holders of the Bonds from time to time. Under the terms of the Financing Agreement, the City is to make payment of meals and rooms tax revenues received by it from the State of New Hampshire, pursuant to RSA 78-A:26, but only to the extent that (i) such funds are actually received by the City from this source, in excess of \$454,927 in any given year, and (ii) that the City’s Board of Mayor and Aldermen (the “BMA”) actually appropriates such funds in each year to make such payments. The City’s payments under the Financing Agreement are not secured by its full faith and credit. Moreover, the City is not morally obligated to make any payments under the Financing Agreement. The Financing Agreement stipulates that the Mayor will include an appropriation request in the annual budget submission to the City’s Board of Mayor and Aldermen, payable from the meals and rooms tax imposed by the State and paid to the City in excess of \$454,927 in each fiscal year in an amount sufficient to make the payments required under the Financing Agreement. There is, however, no assurance that the BMA will appropriate such funds on an annual basis or that sufficient meals and rooms tax revenues will be received by the City to make scheduled payments under the Financing Agreement. Pursuant to New Hampshire law, the Bonds do not constitute indebtedness of the City of Manchester.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**9. Long-Term Debt (continued)**

In the event that either (i) the City does not receive meals and rooms tax revenues sufficient to make payments under the Financing Agreement, or (ii) that the BMA should determine not to appropriate meals and rooms tax revenues to make payments under the Financing Agreement (each an “Event of Early Termination”), holders of the Bonds may look only to an insurance policy provided American Capital Access Financial Guaranty Corporation for the payment of scheduled installments of principal and interest on the Bonds. An Event of Early Termination does not constitute a default by the City under the Financing Agreement. Holders of the Bonds have no security interest, mortgage, or other claim or interest in the Arena to secure the repayments of the Bonds.

In the event of default, bond reserves initially and subsequent bond insurance arrangements including the exercise of management control of the facility by the insurer will provide remedies for bondholders. In any event, title to the facility always remains with the City of Manchester. Therefore, the Arena is included as an asset on the City’s financial statement. The City treated the donation of the asset from MHRA as a non-exchange transaction and recorded the asset at construction cost as the estimated fair market value at the time of the donation.

Due to the uncertainty of the state meals and rooms tax revenue formula, the City is not including these unknown funds as either revenues or receivables. Similarly, since the non-funding clause in the Financing Agreement provides annual lease payments which are contingent upon the items discussed in the second paragraph, the City has not included any future payments pursuant to the Financing Agreement. Accruals for the general or unspecified business risks (“reserves for general contingencies”) are not permitted per FASB 5. The BMA may at any time, at its sole discretion, decide not to appropriate meals and rooms tax revenue funds.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans**

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System ("NHRS").

***City Plans***

The vast majority of employees of the City participate in the City's pension plan known as the New System. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

**SCHEDULE OF PLAN NET ASSETS**

|  | <b>CRS Pension<br/>Trust</b> | <b>Old System<br/>Pension Trust</b> | <b>Total</b>                 |
|--|------------------------------|-------------------------------------|------------------------------|
| <b>Assets</b>  |                              |                                     |                              |
| Cash and cash equivalents  | \$ 292,923                   | \$ 9,861,500                        | \$ 10,154,423                |
| Investments  | 85,669,869                   | 10,156,337                          | 95,826,206                   |
| Receivables, net of allowances<br>for collection losses                      | 454,538                      | 115,837                             | 570,375                      |
| Prepaid items  | 3,333                        |                                     | 3,333                        |
| Property and equipment, net where<br>applicable, of accumulated depreciation | 121,211                      |                                     | 121,211                      |
| <b>Total Assets</b>  | <u>\$ 86,541,874</u>         | <u>\$ 20,133,674</u>                | <u>\$ 106,675,548</u>        |
| <b>Liabilities</b>   |                              |                                     |                              |
| Accounts and warrants payable  | \$ 112,031                   |                                     | \$ 112,031                   |
| Accrued liabilities  | 643,689                      |                                     | 643,689                      |
| Due to other funds   | <u></u>                      | <u>\$ 7,275</u>                     | <u>7,275</u>                 |
| <b>Total Liabilities</b>   | 755,720                      | 7,275                               | 762,995                      |
| <b>Net Assets Held in Trust<br/>for Pension Benefits</b>                     | <u><u>\$ 85,786,154</u></u>  | <u><u>\$ 20,126,399</u></u>         | <u><u>\$ 105,912,553</u></u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

**SCHEDULE OF CHANGES OF PLAN NET ASSETS**

|  | <b>CRS Pension<br/>Trust</b> | <b>Old System<br/>Pension Trust</b> | <b>Total</b>          |
|--|------------------------------|-------------------------------------|-----------------------|
| <b>Additions</b>   |                              |                                     |                       |
| Contributions  |                              |                                     |                       |
| Employer   | \$ 1,135,820                 | \$ 230,768                          | \$ 1,366,588          |
| Plan members   | 1,473,606                    | -                                   | 1,473,606             |
| Contributions  | -                            | 20,810,000                          | 20,810,000            |
| <b>Total Contributions</b>                               | <u>2,609,426</u>             | <u>21,040,768</u>                   | <u>23,650,194</u>     |
| Investment Income (Loss)                                 |                              |                                     |                       |
| Net depreciation   |                              |                                     |                       |
| in fair value of investments                             | (6,649,976)                  | (1,021,585)                         | (7,671,561)           |
| Interest   | 871,471                      | 621,280                             | 1,492,751             |
| Dividends  | 1,334,213                    |                                     | 1,334,213             |
| Less investment expense                                  | (342,118)                    |                                     | (342,118)             |
| <b>Net Investment Loss</b>                               | <u>(4,786,410)</u>           | <u>(400,305)</u>                    | <u>(5,186,715)</u>    |
| <b>Total Additions (Reductions)</b>                      | <u>(2,176,984)</u>           | <u>20,640,463</u>                   | <u>18,463,479</u>     |
| <b>Deductions</b>  |                              |                                     |                       |
| Benefits paid directly to participants                   | 4,239,493                    | 1,930,614                           | 6,170,107             |
| Refunds of employee contributions                        | 234,255                      |                                     | 234,255               |
| Administrative expenses                                  | 597,966                      | 234,224                             | 832,190               |
| <b>Total Deductions</b>                                  | <u>5,071,714</u>             | <u>2,164,838</u>                    | <u>7,236,552</u>      |
| <b>Net Increase (Decrease)</b>                           | (7,248,698)                  | 18,475,625                          | 11,226,927            |
| <b>Net Assets Held in Trust<br/>for Pension Benefits</b> |                              |                                     |                       |
| Beginning of year  | 93,034,852                   | 1,650,774                           | 94,685,626            |
| End of year  | <u>\$ 85,786,154</u>         | <u>\$ 20,126,399</u>                | <u>\$ 105,912,553</u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

***New System***

In 1974, the City established a single-employer public employee retirement system (the “New System”) to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the “Old System” described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-1/2% of final average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of service and attain age 62 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-1/2% of their salaries to the New System prior to January 1, 1999 and 3-3/4% of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the New System Board of Trustees (5%, for the periods ended June 30, 2001 and 2000) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum.

Membership in the Plan consisted of the following at December 31, 2001, the date of the last actuarial valuation:

|   |                     |
|---|---------------------|
| Retirees and beneficiaries receiving benefits | 468                 |
| Terminated vested members                     | 69                  |
| Active members                                | <u>1,265</u>        |
| Total Participants                            | <u><u>1,802</u></u> |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution ("ARC") of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation ("NPO").

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| Year Ended<br>June 30, | Annual Required<br>Contribution | Percentage<br>Contributed |
|------------------------|---------------------------------|---------------------------|
| 2001                   | \$ 1,117,163                    | 100 %                     |
| 2000                   | 713,685                         | 100                       |
| 1999                   | 796,552                         | 100                       |
| 1998                   | 514,216                         | 100                       |
| 1997                   | 543,835                         | 100                       |
| 1996                   | 504,328                         | 100                       |

**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date | Actuarial Value<br>of Assets<br>(a) | Unfunded<br>Actuarial Accrued<br>Liability (Surplus)<br>(b) | Actuarial<br>Accrued Liability<br>(c) | Funded<br>Ratio<br>(a)/(c) | Covered<br>Payroll<br>(prior year) |
|--------------------------------|-------------------------------------|---|---------------------------------------|----------------------------|------------------------------------|
| 12/31/01                       | \$ 94,812,631                       | \$ 1,457,848  | \$ 96,270,479                         | 98.5 %                     | \$ 38,692,738                      |
| 12/31/00                       | 90,144,513                          | (3,049,404)   | 87,095,109                            | 103.5                      | 35,370,961                         |
| 12/31/99                       | 82,584,305                          | (3,263,538)   | 79,320,767                            | 103.0                      | 29,581,577                         |
| 12/31/98                       | 72,569,967                          | (1,494,444)   | 71,075,523                            | 102.1                      | 28,255,208                         |
| 12/31/97                       | 65,839,177                          | (4,296,452)   | 61,542,725                            | 107.0                      | 26,961,375                         |
| 12/31/96                       | 59,838,164                          | (3,121,758)   | 56,716,406                            | 105.5                      | 24,418,320                         |

Investments are reported at fair value based on quoted market rates. Investment income is recognized as earned. Gains and losses on sales and exchange of investments are recognized on the transaction date.

Additional information as of the latest actuarial valuation follows:

|                                |  |
|--------------------------------|--|
| Valuation Date:                | January 1, 2002                                    |
| Mortality:                     | The 1983 Group Annuity Mortality Table             |
| Actuarial Cost Method:         | Entry Age  |
| Investment Return:             | 7.5% per year compounded annually, net of expenses |
| Compensation Increases:        | Under 35 – 5.5%; 35 to 49 – 5%; 50 and over – 4.5% |
| Amortization Method:           | Level percentage closed                            |
| Asset Valuation Method:        | 5 year smoothed market                             |
| Inflation Rate:                | 4.5%   |
| Remaining Amortization Period: | 8 years, closed                                    |

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

***Old System***

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors. Benefits are recognized as expenditures of the General Fund on a pay-as-you-go basis. At June 30, 2002, the Old System membership consisted of:

|                                      |            |
|--------------------------------------|------------|
| Members currently receiving benefits | 146        |
| Active Vested Members                | 23         |
| Total Members                        | <u>169</u> |

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| Plan Year ended<br>June 30 | Annual required<br>contributions | Percentage<br>contributed * |
|----------------------------|----------------------------------|-----------------------------|
| 2002                       | \$ 2,175,245                     | 967.3 %                     |
| 2001                       | 2,196,055                        | 92.6                        |
| 2000                       | 2,158,104                        | 93.4                        |
| 1999                       | 2,048,811                        | 96.8                        |
| 1998                       | 1,728,000                        | 100.0                       |
| 1997                       | 1,713,000                        | 100.0                       |

The City's annual pension cost and net pension obligation to the Plan for the current year were as follows:

|  |                              |
|--|------------------------------|
| Annual required contribution                     | \$2,175,245                  |
| Interest on net pension obligation               | 27,316                       |
| Adjustment to annual required contribution       | <u>(37,261)</u>              |
| Annual pension cost                              | 2,165,300                    |
| Less contributions made                          | <u>(21,040,768)</u>          |
| Increase in net pension obligation (asset)       | (18,875,468)                 |
| Net pension obligation (asset) beginning of year | 364,220                      |
| Net pension obligation (asset) end of year       | <u><u>\$(18,511,248)</u></u> |



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

Three year trend information

| Fiscal Year<br><u>Ending</u> | Annual Pension<br><u>Cost (APC)</u> | Percentage of<br><u>APC Contributed</u> | Net Pension<br><u>Obligation (Asset)</u> |
|------------------------------|-------------------------------------|---|--|
| 6/30/2002                    | \$ 2,165,300                        | 967.3 %                                 | \$ (18,511,248)                          |
| 6/30/2001                    | 2,190,986                           | 92.6                                    | 364,220                                  |
| 6/30/2000                    | 2,156,650                           | 93.4                                    | 207,430                                  |

**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued Liability<br>(AAL) P.U.C. | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage of<br>Covered Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|---|
| 07/01/2001                     | \$ -                            | \$ 21,262,936                                  | \$ 21,262,936             | 0.00 %          | \$ 1,009,090       | 2,107.14 %                                    |
| 07/01/2000                     | -                               | 22,085,349                                     | 22,085,349                | 0.00            | 1,097,032          | 2,013.19                                      |
| 07/01/1999                     | -                               | 22,269,566                                     | 22,269,566                | 0.00            | 1,326,886          | 1,678.33                                      |
| 07/01/1998                     | -                               | 22,453,076                                     | 22,453,076                | 0.00            | 1,417,158          | 1,584.37                                      |
| 07/01/1997                     | N/A                             | N/A  | N/A                       | N/A             | N/A                | N/A   |
| 07/01/1996                     | -                               | 23,028,460                                     | 23,028,460                | 0.00            | 1,557,720          | 1,478.34                                      |

Additional information as of the latest actuarial valuation follows:

|                               |                       |
|-------------------------------|-----------------------|
| Valuation date                | June 30, 2002         |
| Actuarial cost method         | Projected unit credit |
| Amortization method           | Level dollar, closed  |
| Remaining amortization period | 16 years              |
| Asset valuation method        | Market Value          |
| Actuarial assumptions:        |                       |
| Investment rate of return     | 7.50 %                |
| Projected salary increases    | 4.50 %                |

***NHRS Related Supplementary Benefits Plan***

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. These costs are accounted for on a pay-as-you-go basis in the general fund.

At June 30, 2002, the membership consisted of:

Members currently receiving benefits

58

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**10. Employee Benefit Plans (continued)**

***New Hampshire Retirement System***

The City contributes to the NHRS a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The NHRS provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:1-a of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The NHRS issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

NHRS members are required to contribute between 3.86% and 9.30% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16 and ranges from 2.18% to 4.87% of covered compensation.

The City's contributions to the system, consisting of firefighters and police officers, for the year ended June 30, 2002, 2001, and 2000 were \$1,427,011, \$1,201,022, and \$1,024,022 respectively and were equal to the required contributions. The City has recognized both revenue and expenditures of \$646,212 on behalf of contributions made by the State to the NHRS.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**11. Contingent Liabilities and Insurance**

There are various claims and legal actions pending against the City for which provision has been made in the financial statements starting in fiscal year 2002. In the opinion of the City Solicitor and other City officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be significant.

The City's insurance coverage consists of both self-insured programs and policies maintained with various carriers. Coverage has not been materially reduced nor have settled claims exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities recorded by the City during the past two years are as follows:

| Fiscal Year<br>Ended | Claims<br>Payable<br>July 1 | Claims and<br>Changes in<br>Estimates | Claims<br>Paid | Claims<br>Payable<br>June 30 |
|----------------------|-----------------------------|---------------------------------------|----------------|------------------------------|
| 2002                 | \$5,488,269                 | \$4,344,763                           | \$3,832,896    | \$4,976,402                  |
| 2001                 | 5,935,793                   | 5,589,905                             | 6,037,429      | 5,488,269                    |

**Accident and Health**

Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City maintains a stop-loss policy with limits of \$100,000 per year, per claim and a 115% aggregate for the entire cost. The City has recorded \$905,321 in the General Fund for claim liabilities at year end.

**Property**

Property insurance is maintained with a commercial insurer and provides for a deductible of \$100,000 for each claim and an overall coverage limit of \$100,000,000.

**General Liability**

Liability claims are administered through a private carrier. The City is self-insured under this program, except for the Aviation Fund which maintains a liability insurance policy which provides coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. State law generally limits a city's liability for an incident to \$150,000 per individual and \$500,000 per incident. \$2,751,495 was recorded in the government wide statements for fiscal year 2002 as the City's estimated liabilities for unsettled claims.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**11. Contingent Liabilities and Insurance (continued)**

**Worker's Compensation**

Worker's compensation claims are administered through a private carrier. The City is self-insured under this program for all City employees. There is no limit per employee. \$1,918,908 for 2002 was recorded in the government wide statements as the City's estimated liability for all types of claims incurred in 2002 or prior, which have not been settled.

**Department of Aviation**

The DA has comprehensive airport liability insurance policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period.

Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**Regulatory**

The City was issued an Administrative Order against it by the United States Environmental Protection Agency (EPA), ordering the City to evaluate and plan for appropriate treatment of combined sewer over flows pursuant to the Federal Clean Water Act. The City believes it is in compliance with the Administrative Order and is working with Federal and State authorities in dealing with combined sewer overflows from its publicly-owned treatment works. As of June 30, 2002, there is no pending claim by the EPA or the State.

**12. Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations required the City to place final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stopped accepting waste, the City reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of the balance sheet date. The \$21,509,737 reported as landfill closure and postclosure care liability at June 30, 2002 represents the cumulative amount reported to date based on use of 100 percent of the estimated capacity of the landfill. The City closed the landfill on June 28, 1996. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City anticipates that the funding for the landfill closure costs will be provided through the issuance of general obligation bonds.

**13. Fund Deficit**

As of June 30, 2002, the CDBG and the Aggregation funds had fund deficits in the amounts of \$30,324, and \$1,600,966, respectively.

The City anticipates financing the deficits through future revenues.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**14. Implementation of New Accounting Pronouncements**

As of July 1, 2001, the City adopted the following Governmental Accounting Standards Board pronouncements.

Statements

- No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.
- No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.
- No. 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments: Omnibus*.
- No. 38, *Certain Financial Statement Note Disclosures*.

Interpretation

- No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on size of the government) through fiscal years ending in 2005. The City was required to implement the new requirements for the fiscal year ending June 30, 2002.

The more significant of the changes affecting the City as required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government's major governmental, proprietary and fiduciary funds;
  - Schedules to reconcile certain fund financial statements to the government-wide financial statements; and
  - Notes to the basic financial statements.
  - The City elected to record infrastructure assets on a prospective method.
  - As a result of implementing these pronouncements for the fiscal year ended June 30, 2002, the following restatements were made to beginning fund balance and net asset accounts:

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2002**

**14. Implementation of New Accounting Pronouncements (continued)**

**Government-wide financial statements.** Beginning net assets for governmental activities was determined as follows:

|  |                              |
|--|------------------------------|
| Fund balances of general, special revenue and capital project funds as of June 30, 2001                          | \$ 36,659,557                |
| Add: governmental capital assets, including general fixed assets as of June 30, 2001                             | 199,303,213                  |
| Deduct: accumulated depreciation as of June 30, 2001 on above governmental capital assets                        | (94,194,053)                 |
| Deduct: general obligation bonds and notes payable as of June 30, 2001   | (110,870,443)                |
| Deduct: accrued interest payable on general obligation bonds and other long-term liabilities as of June 30, 2001 | (37,017,934)                 |
| Add: property tax receivable, deferred revenue and miscellaneous receivables                                     | <u>3,728,043</u>             |
| Governmental activities net assets, restated as of July 1, 2001  | <u><u>\$ (2,391,617)</u></u> |

**Enterprise Funds**

The beginning net assets of the enterprise funds was derived by aggregating the previously reported retained earnings and contributed capital of those, as follows:

|                                    |                              |
|------------------------------------|------------------------------|
| Retained Earnings, June 30, 2001   | \$ 123,469,886               |
| GASB 34 Infrastructure assets      | 5,699,960                    |
| Contributed Capital, June 30, 2001 | <u>123,721,430</u>           |
| Net Assets, July 1, 2001           | <u><u>\$ 252,891,276</u></u> |



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